

# ANALYSIS OF AMENDED BILL

## Franchise Tax Board

Author: Ducheny Analyst: Darrine Distefano Bill Number: SB 1179  
Related Bills: See Legislative History Telephone: 845-6458 Amended Date: March 17, 2004  
Attorney: Patrick Kusiak Sponsor: \_\_\_\_\_

**SUBJECT:** Enterprise Zones/Designation Period May Total 20 Years/Technical Changes

### SUMMARY

This bill would allow all enterprise zones (EZ) to be designated as an EZ for 20 years if certain criteria are met.

### SUMMARY OF AMENDMENTS

The March 17, 2004, amendments made a technical change to the bill.

This is the department's first analysis of the bill.

### PURPOSE OF THE BILL

It appears that the purpose of the bill is to allow EZs designated after 1990 to be eligible to have the EZ designation period extended and continue the incentives offered in EZs if certain specified conditions are satisfied.

### EFFECTIVE/OPERATIVE DATE

This bill would be effective and operative January 1, 2005.

### POSITION

Pending.

### ANALYSIS

#### FEDERAL/STATE LAW

Existing federal law provides for the existence of empowerment zones and enterprise communities to provide economic revitalization of distressed urban and rural areas.

Under the Government Code, existing state law allows the governing body of a city or county or a city and county to apply for designation as an EZ. Using specified criteria, the former Technology, Trade, and Commerce Agency (TTCA) designated EZs from the applications received from the governing bodies. EZs are designated for 15 years. Currently, 39 of the authorized 42 EZs have been designated. Beginning in 2004, the Department of Housing and Community Development (DHCD) has assumed TTCA's responsibilities with respect to EZs.

Board Position:

_____ S	_____ NA	_____ NP
_____ SA	_____ O	_____ NAR
_____ N	_____ OUA	_____ X PENDING

Department Director

Date

Gerald H. Goldberg

4/8/04

An EZ designated before 1990 may have its designation period extended to 20 years if it meets both of the following requirements:

- The EZ received a superior or passing audit grade from the responsible agency.
- An updated economic development plan was submitted to the responsible agency that justified the additional five-year designation period.

This extension does not apply to EZ's designated after 1990.

Under the Revenue & Taxation Code, existing state law provides special tax incentives for taxpayers conducting business activities within the EZ. These incentives include a sales or use tax credit, a hiring credit, a business expense deduction, a net interest deduction, special net operating loss treatment, and a tax credit for employees working in an EZ.

### THIS BILL

This bill would extend the designation period for EZs if they meet specified criteria. As a result, EZs, including those EZs that were created after 1990 with a designation of only 15 years, would be eligible to have the designation period extended an additional five years for a total designation period of 20 years.

Based on information from former TTCA, the following EZ's would be eligible for the extended designation period: Altadena/Pasadena (April 1992); Antelope Valley (February 1997); Coachella Valley (November 1991); Delano (December 1991); Kings County (June 1993); Lindsay (October 1995); Long Beach (January 1992); Merced/Atwater (December 1991); Oakland (September 1993); Oroville (November 1991); Richmond (March 1992); Army Depot (Sacramento) (October 1994); San Ysidro/Otay Mesa (January 1992); San Francisco (May 1992); Santa Ana (June 1993); Shafter (October 1995); Shasta Metro Redding/Anderson (November 1991); Shasta Valley Siskiyou County (June 1993); Stockton (June 1993); and Watsonville (May 1997).

### IMPLEMENTATION CONSIDERATIONS

Implementing this bill would not significantly impact the department's programs and operations.

### TECHNICAL CONSIDERATIONS

On page 4, line 11, a space needs to be inserted between the words "either" and "this."

### **LEGISLATIVE HISTORY**

AB 516 (Matthews 2003/2004) would have expanded the 20-year designation period to include an EZ located in a rural area after 1990. This bill failed to pass out of the first house by January 31 of the second year of the session.

AB 708 (Correa, 2003/04), SB 172 (Ducheny 2003/2004), and AB 1846 (Correa, 2001/2002) were identical to this bill. AB 708 and SB 172 failed to pass out of the first house by January 31 of the second year of the session. AB 1846 failed to pass out of the Senate Revenue & Taxation Committee.

## OTHER STATES' INFORMATION

*Florida* has 51 state enterprise zones that are designated until December 31, 2005. The Florida Legislature will determine at that time if the program should continue as is, continue but with modifications, or be completely repealed.

*Illinois* has 93 enterprise zones, *Michigan* has 33 Renaissance Zones, and *New York* has 71 empire zones designated throughout each state. Each of these states designated zones does not appear to have an expiration date.

The laws of these states were reviewed because their tax laws are similar to California's income tax laws.

## FISCAL IMPACT

This bill would not significantly impact the department's costs.

## ECONOMIC IMPACT

### Revenue Estimate

Revenue Impact Enterprise Zone Extensions (\$ Millions)			
Fiscal Year	2006/2007	2007/2008	2008/2009
Net Revenue Loss	-60	-68	-88

This bill does not consider the possible changes in employment, personal income, or gross state product that could result from this measure.

### Revenue Discussion

Revenue losses for the extension of EZ designation would largely depend on the amount of qualifying property purchased subject to the sales tax, the amount of wages paid to qualifying employees, and the state tax liabilities of employers claiming these tax benefits.

The revenue impact of the proposed legislation would first occur in 2007, the original year of expiration for 1991 designations. Under this bill, 20 of the 39 zones would be impacted. By 2007, ten EZs that were designated after 1990 (including four of the most costly EZs in the program – Long Beach, San Francisco, Oakland, and Richmond) would be extended under this bill resulting in an additional loss of \$60 million in the first fiscal year. In the following fiscal year 2007/08, the loss is estimated at an additional \$68 million because another five EZs would be extended in addition to the first ten EZs that would continue to benefit from the tax incentives for zone businesses. This estimate accounts for unused carryovers, net operating loss (NOLs), other deductions for taxpayers in expired zones, as well as the projected impact under current law attributed to the authorization of new EZs when an existing EZ expires.

## LEGISLATIVE STAFF CONTACT

Darrine Distefano  
Franchise Tax Board  
845-6458  
[darrine.distefano2@ftb.ca.gov](mailto:darrine.distefano2@ftb.ca.gov)

Brian Putler  
Franchise Tax Board  
845-6333  
[brian.putler@ftb.ca.gov](mailto:brian.putler@ftb.ca.gov)